Indiana Performance-based Funding for Higher Education

A number of states, including Tennessee, South Carolina, Virginia, and Ohio, have employed various forms of performance-based funding since the early 1980s. It is fair to say that results from previous efforts have been mixed, with previous approaches criticized for being unduly complex or for affecting only a small proportion of state higher education finding and therefore influencing behavior only on the margins. A number of states, including South Carolina, and Missouri, abandoned performance funding based on these concerns or when faced with the need to reduce spending.

However, new approaches to performance funding have sprung up in recent years in several states that have breathed new life into this approach. These new approaches could more accurately be described as "completion-based" funding, reflecting their tighter focus. Chief among them is Indiana, which has since 2007 used completion-based funding as a major element of the state higher education funding system.

As the name implies, the Indiana approach is targeted specifically to increasing completion. The approach uses three simple and clear measures of completion:

- 1. Degree completion
- 2. On-time graduation
- 3. Two- to Four-year transfer rates

Institutions receive specific dollar payouts for exceeding targets in the three areas. For example, universities receive \$5,000 for each additional baccalaureate degree produced over their baseline, Community college receive \$3,500 for each additional Associates degree. The amount of funding determined by completion measures has increased by 2% each biennium, and is now 7% of total higher education appropriations.

The reason the Indiana approach has garnered significant national attention is that the state used it to allocate budget cuts this year. Faced with the need to cut higher education budgets by 5.5%, the Indiana Commission for Higher Education used the performance criteria to vary the amount institutions were cut from a low of 3.5% to a high of 6.6%. This approach was supported by the Governor and legislative leadership, and received significant (and positive) coverage in local and national media.

It is important to note that the performance measures included in Indiana's funding system were derived from the Commission's strategic plan, adopted in 2008, which placed a strong emphasis on completion. Of perhaps even greater significance, there is solid evidence that Indiana colleges and universities are, in fact, placing an increasing emphasis on efforts to improve completion. In many cases, institutions have adopted their own goals for increased completion, and are already making measurable progress toward them.